Exhibit 3

to

Memorandum of Law in Support of Defendant's Motion to Dismiss Complaint Filed by TreeHouse Foods, Inc.

Seeking Alpha α

Green Mountain Coffee Roasters' CEO Discusses F4Q 2013 Results - Earnings Call Transcript

Executives

Brian Kelley - President and CEO

Fran Rathke - CFO

T.J. Whalen - Chief Strategy and Sustainability Officer

John Whoriskey - President, U.S. Sales

Suzanne DuLong - VP, Investor Relations and Corporate Communications

Analysts

Mitch Pinheiro - Imperial Capital

Jon Andersen - William Blair & Company

Bryan Spillane - Bank of America Merrill Lynch

Brian Holland - Consumer Edge Research, LLC

Gregory McKinley - Dougherty & Co. LLC

Marc Riddick - Williams Capital

Akshay Jagdale - KeyBanc Capital Markets

Bill Chappell - SunTrust

Scott Van Winkle - Canaccord Genuity

Anton Brenner - Roth Capital Partners

Matthew DiFrisco - Buckingham Research Group

Mark Astrachan - Stifel Nicolaus

Phil Terpolilli - Longbow Research

Green Mountain Coffee Roasters, Inc. (GMCR) F4Q 2013 Earnings Conference Call November 20, 2013 5:00 PM ET

Operator

Good afternoon and welcome to Green Mountain Coffee Roasters Incorporated Fiscal 2013 Fourth Quarter Conference Call. Today's call is being recorded. At this time, I'd like to turn the call over to the Company's Vice President of Investor Relations and Corporate Communications, Suzanne DuLong. Suzanne, please go ahead.

Suzanne DuLong

Thank you, Amber, and welcome, everyone. Today's press release is available on our website at gmcr.com. Our Form 10-K for the period has been filed and is also available on our website.

On today's call Brian Kelley, our President and CEO will provide some brief introductory remarks. Fran Rathke, our CFO, will discuss aspects of the quarter's financial results as well as our outlook for our current quarter and fiscal year 2014. Brian will then provide some additional commentary about the business. We'll then open the call to questions from the sell-side analysts.

With us for the Q&A session are T.J. Whalen, Chief Strategy and Sustainability Officer; and John Whoriskey, President of U.S. Sales. To ensure we've the opportunity to address everyone's questions during the time we have allotted for this call, we ask that you limit yourself to one question. We will revisit the question queue for follow-up questions if time permits.

Finally, I'll remind everyone that certain statements will be made today which are forward-looking within the meaning of securities laws. Owing to the uncertainties of forward-looking statements, our actual results may differ materially from anything projected in these forward-looking statements. We can give no assurance as to the accuracy and we assume no obligation to update them. For further information on risks and uncertainties, please read the Company's SEC filings and the paragraph in today's press release that begins with the word "certain information".

And now, I'll turn the call over to Brian Kelley.

Brian Kelley

Thanks, Suzanne and good afternoon everyone. Before I get started, I will remind listeners that our fourth quarter and fiscal year 2012 contained a 14th and 53rd week respectively. For comparative purposes our comments today will exclude the impact of the extra week of fiscal 2012 on our financials unless otherwise noted.

Now onto our performance. We had very strong end to an excellent year, driven by continued consumer passion for the Keurig brewing system. Our 16% revenue growth for the year and 22% growth for the quarter were driven by robust brewer sales and continued momentum in portion packs. For the year our revenue growth of 16% was above our guidance and in line with our long-term growth model. In Q4 we grew revenue by 22%, non-GAAP operating profit by 36% and non-GAAP earnings per share by 56%, an excellent quarter in all.

Portion pack unit shipments grew 29% in the fourth quarter and our customers' sell-through of portion packs was consistent with our shipments for both the fourth quarter and the full year and in line with our estimates of the growth of our U.S at home install brewer base.

As we enter the holiday season, we believe retailers brewer inventory is at seasonally appropriate levels to be able to satisfy anticipated consumer demand. We continue to make meaningful gross margin progress in the quarter as we have throughout the year. Continued operating margin improvement led to non-GAAP EPS growth of 45% for the full year and 56% growth for the quarter.

Importantly free cash flow generation was excellent, at $603 million, nearly eight times last year's $77 million. Our results for the year and the quarter illustrate the strength of our business model, the healthy fundamentals at the foundation of the Keurig system and our continued operational execution.

As we look ahead, 2014 will be a very important product transition year for us. As we drive innovation and prepare to introduce new products at the end of the year, we will be executing three very important product transitions. Over the next 12 months we will launch a new line-up of hot system brewers that deliver breakthrough benefits for the consumer.

We also will launch portion packs that include an interactive readability that will deliver the full extent of the breakthrough consumer benefits coming with our next generation of Keurig 2.0 brewers. And we will continue to convert current unlicensed players into licensed Keurig system partners, so that they can participate in the innovations ahead. Each of these transitions will require careful execution and present some unique challenges; therefore they will be the primary focus of our team in 2014.

Forecasting the exact timing of these transitions quarter-to-quarter may be difficult, but we will make every effort to communicate an accurate outlook in this dynamic environment. The slight revision we're making for the year underscores that approach. As you saw on the press release today, our Board has approved a $1 billion share repurchase authorization that is incremental for the remaining $138 million of our existing share repurchase program, and for the first time approved a cash dividend for shareholders.

These capital allocation decisions do not change our status as a growth company. To simply put, we reviewed our free

cash flow outlook to nearly $1 billion in EBITDA we generated this past fiscal year, our net cash position and available borrowing capacity and we saw an opportunity to further optimize shareholder returns.

And it's very important to note that we will have more than adequate capital to execute our plan to deliver double-digit revenue growth over the long-term, while sustaining both the dividend and share repurchases as appropriate.

Before I turn it over to Fran, let me offer my sincere thanks to our partners who are such an important component of the success of the Keurig system. And I'd also like to thank the entire GMCR team, your hard work delivered a great quarter and another great year. Fran?

Fran Rathke

Thanks, Brian, and hello, everyone. The extra week in 2012 added approximately $90 million in net sales and approximately $0.07 in diluted earnings per share in the fourth quarter and fiscal year 2012. The comparisons I'll make in my remarks today exclude the extra week except where otherwise noted. Our press release details the comparisons on both basis.

For the year, we delivered total revenue of $4.4 billion and EBITDA of nearly $1 billion. Our brewer units were up 16% with brewer and accessories revenue growth of 11% over the last year. Portion pack units were up 26% with revenue growth of 21%. We've recently been asked to provide the total number of portion packs sold in our 2000 fiscal year.

In fiscal year 2013, we sold 8.3 billion portion packs split nearly evenly by quarter with the first quarter a point or two higher than 25% and the third quarter a bit lower. On a 53-week comparison this is a 22% annual increase from 6.8 billion packs last year and on a 52-week comparison this is a 26% annual increase from 6.6 billion packs last year.

We do not believe the portion pack unit number is material to understand the company's business, because for example, pricing and input costs can vary greatly depending on the partner or the product. Therefore we continue to believe the most relevant information regarding our performance remained revenue dollars, revenue growth and unit growth, which we will continue to provide to you quarterly like the majority of our CPG peers.

For the quarter, we reported total revenue of just $1 billion representing 22% revenue growth, driven by strong portion packs sales and robust Keurig brewer sales. Our fourth quarter sales of Keurig brewers increased 47% a unit over the prior year period with 2.4 million brewers sold, driving a 37% increase in brewer and accessories revenues over the same time period.

Of note, we saw a very strong increase in our away-from home brewer shipments in the quarter in part reflecting our win at Hilton Garden Inn where we placed 73,000 brewers. In addition, some of our largest retail customers executed successful promotions during the quarter, driving a step up in consumer sell-through sequentially and versus the prior year.

We also saw healthy portion pack sales in Q4. Our position pack unit shipment volumes increased 29% in Q4 over the prior year period, driving a 23% increase in portion pack revenue. Importantly, portion pack sell-through was in line with shipments for the quarter and the year.

Looking regionally; for the year, our U.S. business delivered 18% revenue growth while our Canadian business delivered 4% growth. For the quarter, our U.S. business was strong with revenue growth of 26% while our Canadian business grew 4%.

Moving to a review of gross profit; for the year, gross profit improved 430 basis points to 37.2% from 32.9%. While favorable Green Coffee costs contributed 290 basis points, we also drove 240 basis points improvement through operational efficiencies. These improvements were partially offset by negative price realization of 100 basis points. For the quarter, we delivered 240 basis point improvement to 36% of net sales versus 33.6% last year.

Today's press release includes a table that outlines all the year-over-year changes in gross margin but I'll call out a few here. Favorable Green Coffee costs contributed 380 points improvement in the quarter. Quality and productivity-related improvements contributed another 160 basis points. Embedded in the 160 basis points improvement was an adverse impact of 200 basis points from a $20 million write-down of brewer inventory taken as we solidified our brewer transition plans for our new hot beverage system in fiscal 2014. Also of note, price realization and product mix adversely affected Q4's gross profit by 140 basis points and 120 basis points, respectively.

Turning to operating results, for the quarter and the year SG&A increased 24% over fiscal year 2012 reflecting our R&D and marketing focused investments. Our Q4 non-GAAP EPS of $0.89, a 56% increase over last year's non-GAAP EPS of $0.57 significantly outperformed our guidance of $0.69 to $0.74 per share largely as a result of two factors.

First, stronger sales and corresponding income even while absorbing a 20 million or an approximate $0.09 per share charge we transitioned out of certain brewers in preparation for our new hot platform. And second, a quarterly tax rate of 27.8% compared to our prior estimate of approximately 37% which increased our non-GAAP EPS by $0.12 per share in the quarter. The lower quarterly tax rate was the result of a number of one-time items.

Looking at cash flow and the balance sheet, free cash flow of 603 million was outstanding at a 125% of GAAP net income with a healthy balance of free cash flow growth from net profit growth, lower inventory levels on the working capital side and lower capital expenditures. CapEx was 233 million down from 401 million last year and was 5.3% of revenue as we drove better productivity from our current manufacturing base. We also improved customer service levels while driving good productivity.

On the previously authorized share repurchase program, during the fiscal fourth quarter we repurchased 778,000 shares for 62.6 million. From its inception in August 2012 through the end of the fiscal year, we purchased approximately 8.8 million shares at an average share price of $30.21 for a total of 264.7 million. Since the end of the fiscal year, we've continued to buy shares totaling 97 million.

Now, I'll turn the call back to Brian.

Brian Kelley

Thanks, Fran. As we wrap up, despite the product transition ahead of us in 2014 and the slight adjustment to our outlook, we're very confident about our business for a number of reasons. First, our balance sheet is very strong and capable of optimizing shareholder returns as we focused on organic growth. Second, our Keurig platform remains very healthy with a number of additional opportunities for continued growth over the long term. Third, our innovation pipeline is strong and diversified.

As we approach the coming year, an important component of our strategy is continuing to convert unlicensed players into licensed Keurig system partners so that they can participate in our coming innovations and consumers can realize the full benefits that the Keurig system delivers for their brands.

More than a year ago, unlicensed portion packs started to enter the Keurig platform and as expected they came in at price points 15% to 25% lower than owned and licensed Keurig system brands. Their biggest impact has been in the grocery channel. As we get to see the entire Keurig system across all channels, we have a very good view of share trends.

In total, for the full year across all U.S. channels, we estimate that unlicensed packs achieved 8% share of the Keurig platform and we estimate that share client to 12% by the end of our fourth quarter. Of course by channel, unlicensed share varies widely from very little share in the away-from-home, specialty and direct channels to more than double this share in the grocery channel.

We expect unlicensed share in the system to continue to grow through the first half of fiscal year 2014 and then begin to decline in the second half and thereafter. Here's why? First, we will continue to feel smart in effective promotions like we did in the fourth quarter to allow us to continue to grow without significant price erosion.

Second, we continue to make progress converting unlicensed packs into licensed partners including retail customer brands, grocery customer brands as well as other named brands. During the second half of fiscal '14, these new licensed partners will begin to appear on shelf. We continue to execute on our portion pack marketing and promotion strategy as planned.

While our promotional activity is intentionally up from past levels, our depth and frequency of promotion are still lower than the overall coffee category and lower than beverages overall. The goal of our strategy is to ensure our Keurig portfolio of brands always offers a range of compelling value to consumers while we continuously improve the marketing of our owned brands.

We continue to sharpen our approach to generate the best returns with an emphasis on certain value brands and on improving the quality of our merchandizing activities. As we continue to innovate and provide the consumer with greater

benefits we feel confident that our ability to deliver these benefits will have a positive impact on pricing in the marketplace.

In addition to the conversion of unlicensed packs in our system, I also mentioned that we'll be going through two transitions related to our coming innovation; the transition to a new line up of brewers and the transition to new interactive technology on all portion packs.

Let me first address the portion packs. Our organization is preparing to launch our next generation hot platform which will deliver the best Keurig consumer experience yet. We've learned from prior product introductions, in particular the Vue, and we'll do things differently with our new Keurig 2.0 platform.

While we're still not willing to discuss specifics about the platform for competitive reasons, we are confident it delivers game-changing performance. To ensure the system delivers on the promise of excellent quality beverages produced simply and consistently every brew every time, we use interactive technology to help us perfectly brew all Keurig brew packs. Because of this the system will not brew unlicensed packs.

All of our 35 plus owned, licensed, partnered and private label brands that exist today in our Keurig system will continue to be offered in our Keurig 2.0 system. And as we stated, we are actively engaged in discussions with a large number of unlicensed players to welcome them into the system. As part of the same Keurig 2.0 launch, we will be transitioning our lineup of Keurig brewers over fiscal 2014 and early 2015.

Ultimately, within about a year of its launch, Keurig 2.0 will replace our current lineup of both K-Cup and Vue brewers at consumer-friendly price points. This is a very important distinction between 2.0 and the Vue launch. And we're confident that our Keurig 2.0 brewers will fundamentally improve and transform the Keurig brew system for our current and new consumers.

Now, I'll turn the call back over to Fran to discuss our outlook for next year.

Fran Rathke

Thanks, Brian. Over the long-term, we continue to expect double-digit annual revenue growth and annual earnings growth in the mid teens. For fiscal year 2014, we expect net sales growth in the high single digits over fiscal year 2013 with some growth rate variability quarter-to-quarter.

Given the product transitions we are making on both the brewer and portion pack side, timing around conversion of unlicensed packs, a somewhat muted U.S. consumer and currency headwinds, we thought it was prudent to slightly revise our revenue guidance into the high single digit range. We expect stronger revenue in the second half of the year as we launch portion pack for already signed up unlicensed players and signed additional unlicensed players.

On the gross margin, we have a number of tailwinds and some headwinds. We expect continued favorable green coffee costs contributed to better gross margins compared to fiscal 2013. At this time, we are 100% locked for green coffee for fiscal year 2014 and are beginning to lock costs for our fiscal year 2015.

We will continue to aggressively pursue productivity improvements and are on track to deliver $100 million in savings over the next two fiscal years with $70 million coming in our fiscal 2014. We're reiterating that we expect to deliver 100 basis points improvement to gross margin and 100 basis points improvement to operating margin for the 2014 fiscal year. We also expect fiscal year 2014 tax rate will return to our historic 37%.

We anticipate non-GAAP earnings per diluted share of 375 to 385. This is in line with our previous guidance of earnings growth at the high-end of our mid teens range when you exclude the tax benefit we saw in the fourth quarter of fiscal '13 which contributed $0.12 earnings per share.

We also expect free cash flow in the range of $200 million to $300 million and capital investments in the range of $400 million to $450 million including approximately $200 million primarily to fund new innovations as well as IT investments.

For the first quarter of fiscal year 2014, we expect net sales growth in the low-to-mid single digits due to difficult brewer and portion pack sales comparisons and more significant impact from unlicensed packs on our growth rate and the currency headwind in Canada. We expect non-GAAP earnings per diluted share in a range of $0.85 to $0.90, an increase of 12% to 18% over the prior year period.

I'll pass the call back to Brian to wrap up.

Brian Kelley

Thanks, Fran. In conclusion, we believe our inherent advantage is rooted in the fact that we are a unique combination of a technology company and a beverage company, with deep expertise in both. This allows us to approach common consumer problems in unique ways and to innovate faster than others in the marketplace.

We'll continue to leverage these inherent advantages while continually improving the operations of our company. And we're confident these efforts will enable us to sustainably deliver against our long-term commitments. Thank you.

Operator, we will now take questions from the sell-side analysts.

Question-and-Answer Session

Operator

Yes. Thank you. (Operator Instructions) We will go to Mitch Pinheiro with Imperial Capital.

Mitch Pinheiro - Imperial Capital

Yes. Good afternoon I guess.

Brian Kelley

Hi, Mitch.

Mitch Pinheiro - Imperial Capital

Hi. First, my question is looking at the fourth quarter with your brewer units up 47% and then as that relates to your Q1 guidance, this was better the brewer unit sales where a lot better than I expected obviously they aren't all in homes right away, they are in inventory and store shelf, but wouldn't that help the Q1 sort of K-Cup portion back numbers as well and into the next year?

Fran Rathke

Hi Mitch, it's Fran. In terms of our acceleration in our brewer shipments in Q4 from what we've seen for the year, we ended up – we did a bunch of promotions this past quarter in Q4 and a lot of those did sell-through although some of those are gearing up as normal for the holiday season. And then in terms of what does that mean for increasing maybe faster the install base and driving more portion pack volume, I think the key for Q1 portion pack items is just recall last year patent expiry occurred in September with the unlicensed packs started to come in, in Q1 and we're approximately in the – roughly 4% to 5% of the total demand stream then. And then here we're heading into that quarter, we are throughout the course of fiscal '13 that builds up to something around 12%. So we got at least 10 points that we're having a rough comp against from portion pack unit volume Q1 over Q1 this year.

Mitch Pinheiro - Imperial Capital

Okay. Thank you. That's helpful.

Operator

We will go next to Jon Andersen with William Blair.

Jon Andersen - William Blair & Company

Good afternoon everybody.

Brian Kelley

Hi, Jon.

Fran Rathke

Hi, Jon.

Jon Andersen - William Blair & Company

Question on the sales guidance for 2014, I understand that the comparison issue early in the year, but it seems like the call for acceleration in growth as we move through fiscal '14 is at least in part dependent on the ability to bring kind of unlicensed portion pack players into a licensed role. I was wondering Brian if you could – you've talked about this a couple of times previously, once on the prior call, once at the Investor Day. Can you tell us anything about the visibility you have there, that would be kind of helpful just to kind of understand what kind of visibility you have in your confidence in doing that if you move through the year? Thanks.

Brian Kelley

Yes, it's a good question. We have very good visibility and we've conference and I think you heard that today from us, in our ability to convert a variety of unlicensed players into our system. We have a great product; they have many strong brands that are unlicensed that we'd welcome in and we're in a large number of engaged and active discussions today. So while we can't give you individual names because we won't do that where we've good visibility and we're confident.

Jon Andersen - William Blair & Company

Okay. If I could just do a quick follow-up, on Keurig 2.0, you made the statement that the new line will not brew unlicensed cups. The question I have is that, it seems that with the new line, there will be a real imperatives to get that into the hands of your users accelerate the upgrade cycle to the degree that there is an upgrade cycle, you want the best technology in the hands of your users and it will limit license share obviously. Are there plans which you can talk about or anything that you may be able leveraging, maybe able to pull to accelerate that process?

Brian Kelley

Actually we're really excited about the benefit that this will offer to consumers. And we think it will be self-evident and we think we'll get many consumers to join that are new and we will get many consumers who are current users to convert into the new systems. So we're very confident in technology itself and confident that consumers will see it like we do.

Jon Andersen - William Blair & Company

Thanks. I will get back in the queue.

Brian Kelley

Sure.

Operator

We will go next to Bryan Spillane with Bank of America Merrill Lynch.

Bryan Spillane - Bank of America Merrill Lynch

Hi. Good evening.

Brian Kelley

Hi. Bryan.

Bryan Spillane - Bank of America Merrill Lynch

I guess the question with regard to the brewer transition, Brian if you could talk about, I think as late as the Analyst Meeting it seems as it was up in the air at least in terms of the way that you were communicating with investors about the whether or not that the system would – will not brew versus might brew, the unlicensed cups might brew at a lower efficiency rate or a lower effectiveness rate. So I guess can you talk about the evolution of deciding to have will not brew and is that a function of some of the conversations you've had with partners, is it a function of the change in the technology, just kind of what led you to the point to make that decision?

Brian Kelley

I'd say that the decision itself is based on the ability of the technology to deliver what we needed to deliver. And as we

gained increasing confidence with our testing, we made the decision we've made. So it has to do with the technology, it has to do with what we know consumers want and then also it has to do with what the machine will do and how the new brewer will treat individual pods and individual packs and the flexibility it will give consumers. All of those things went into this and as we saw and learned more and more as we get closer to the launch it became clear to us the right thing to do.

Bryan Spillane - Bank of America Merrill Lynch

Have you discussed this in your conversations with retailers yet – in the discussion about converting to being a license partner or to other entities?

Brian Kelley

Yes, we have.

Bryan Spillane - Bank of America Merrill Lynch

Okay. And then just one last one, if I will, just Fran can you just tease out for us how much of the revenue guidance in the back half of the year where you talk about anticipating conversion of unlicensed to licensed, just how much of that is sort of orders in hand so – people who are entities you know will convert and how much is sort of anticipated conversions? Even if you can give us just sort of broad stroke how to think about that?

Fran Rathke

Well at this point, Bryan this is Fran. We have signed up, we mentioned in our remarks, we had signed up a few. We are not at liberty to say right now because of just respecting their need to transition out from who they're currently manufacturing their product with, so I think we have dates when we know when we'll be starting the manufacturing and sell to them and some of it is starting earlier in the calendar year and some of it a bit later. And then I think we've been somewhat, I would say holding back a little. We've got – I would say we haven't baked in everything that we think we can sign up in our projections but I think we've got a little bit of upside in there, in the back half.

Bryan Spillane - Bank of America Merrill Lynch

Okay, great. Thank you.

Operator

We'll go next to Brian Holland with Consumer Edge Research.

Brian Holland - Consumer Edge Research, LLC

Thanks. Good evening.

Brian Kelley

Hi, Brian.

Brian Holland - Consumer Edge Research, LLC

Can you talk a bit about the non-measured channels which remain a meaningful portion of your total business focused on three things? First, based on your dialogue with customers in these channels, what is your sense for the potential for unlicensed penetration going forward? Second, how do you think about your pricing or promotional strategy relative to grocery? Could you perhaps be more competitive on price in those channels as a means to prevent further channel shift? And then finally, what is your sense for how far away we are from seeing growth in these channels more closely mirroring grocery? And said another way, at what point do you think you can reasonably say that you're sort of passed the channel shift dynamic? Thanks.

Brian Kelley

Yes. Three questions. Let me try to address them and Fran jump in. First, if you look at the non-measured channels, I don't think there is a difference between non-measured and measured in terms of the ability for unlicensed packs to go in. I think what drives that and what has driven it will be unlicensed capability of that individual retailer. Do they play in a

private label or not and how big a player are they in the coffee business in total, I think that drives much of it. And I think the proposition for what we're doing with Keurig 2.0 will determine a lot of it going forward from this point forward. In terms of pricing in grocery, we've seen it be slightly more competitive than we had planned or anticipated not dramatically more competitive. If you look at actual commodity costs to coffee, coffee is down 20% to 25% this year. We are promoting really for the first time and we're promoting at reasonable rates, at rates as I mentioned, lower than the coffee category, lower than bev in total. And so while they're slightly more aggressive than we might have thought, we think it's reasonable, rational and we think it will continue to be. How far are we from having the channel shift finished, I don't know that we know. It's at least another 6 to 10 months, maybe 12 months before we see that channel shift play out that would be my best guess.

Brian Holland - Consumer Edge Research, LLC

Okay. Thank you.

Brian Kelley

Sure.

Fran Rathke

Thanks, Brian.

Operator

We'll go next to Greg McKinley with Dougherty & Company.

Gregory McKinley - Dougherty & Co. LLC

Yes. Thank you. I wonder if you can comment a little bit more on your margin view for 2014, Fran you indicated you locked in all of your coffee costs. With that locked in now, what can you share with us in terms of what your costs will be for coffee in '14 versus '13? And then when I look at gross margins for the quarter just delivered, maybe I was thinking margins to be higher than they were even despite the revenue mix shift. Was some of that from the promotional activity you did on brewers and maybe those came at lower than typical? Can you give some color on that, I appreciate it?

Fran Rathke

Sure, Greg. In terms of our outlook on our margin for next year, I mentioned we expect to overall for the year improve our gross margin by 100 basis points. Factored in here is lower coffee cost than what we had in fiscal '13, so continued tailwind there. Probably all-in about 17% to 20% I think we had mentioned on the Analyst Day, lower cost from '13 into '14. So that's factored in there. What is also factored in is some of the $70 million we mentioned in productivity improvements across the factories as well as our distribution logistics and some other areas. Offsetting some of that is our anticipated higher promotional levels and so we factored all that in and I think turning to Q4, as we mentioned on the call, embedded in the gross margin analysis and you can see it in the press release, the margin walk, we this quarter as we finalized our transition plans with our new hot platform next year, we essentially looked at our current inventory levels on certain brewer models and felt there were a number of them that we needed to write down and we did take a charge of $20 million this quarter and that's in the gross margin in Q4 that I would say probably the big item that brought down our gross margin from maybe your projection.

Gregory McKinley - Dougherty & Co. LLC

Yes, okay. That makes sense. Can you just remind us when you say you have 17% to 20% lower coffee, I know at the Analyst Day you shared with us what portion of K-Cup COGS or maybe even total COGS was coffee versus other components?

Fran Rathke

Yes. I think overall when we went through on the Analyst Day what our owned and licensed single serve pack COGS breakdown, we noted that coffee or ingredients tends to be about 38% of the cost of goods sold.

Gregory McKinley - Dougherty & Co. LLC

Okay.

Fran Rathke

And that's our owned, so when we're talking partner brands, some of our partners buy their own coffee, so that's obviously not in here.

Gregory McKinley - Dougherty & Co. LLC

Okay. Thank you. And then just lastly, does you guidance include any additional repurchase activity in it?

Fran Rathke

For our guidance we've only factored in what we've purchased to-date.

Gregory McKinley - Dougherty & Co. LLC

Okay. Thank you.

Fran Rathke

Thanks, Greg.

Operator

We'll go next to Marc Riddick with Williams Capital.

Marc Riddick - Williams Capital

Hi. Good evening, everyone.

Brian Kelley

Hi, Marc.

Marc Riddick - Williams Capital

I wanted to ask my traditional question about 8 O'Clock Coffee and wondered if you could give us an update as to where you are on distribution nationally? And then a quick follow-up as far as the pricing of 8 O'Clock within the grocery channel, whether you anticipate that being a greater focus? I think you did mention in your prepared remarks something about greater focus maybe on the lower end of the range?

Brian Kelley

Yes. Marc, thanks. We're very pleased with 8 O'Clock Coffee. John can tell us exactly where we are with ACV, but it's actually performing quite well as we expected it would because in our portfolio, we didn't have a number of brands down at the – I wouldn't call it a low end but it's a value brand that's got a great brand name and so we're pleased. John, do you know the...

John Whoriskey

Sure. So I can tell you in the mass channel we have really full distribution in the key mass retailers and the product is performing very well there. And in grocery we're just over 60% and rapidly expanding that as we speak. So that's going to become a very important brand as we position that in different good, better, best offerings across all of our brands. That would be positioned more promotionally in some of those channels. But there's still a lot of growth potential for the product.

Marc Riddick - Williams Capital

Thank you for that. I was wondering if there's – it seems as though on the bags side on 8 O'Clock that they have this refreshed, a different look, what have you and I was wondering if that's that would then transition promotionally to K-Cups as well?

Brian Kelley

We work with 8 O'Clock to reflect in our K-Cups what they want the brand to look like. And so we're constantly working with them. And it's likely that if they're pleased with the packaging change they've made, we'll make it on K-Cup as well.

Marc Riddick - Williams Capital

Okay. Thank you very much.

Brian Kelley

Sure.

Operator

We'll go next to Akshay Jagdale with KeyBanc Capital Markets.

Akshay Jagdale - KeyBanc Capital Markets

Good evening.

Brian Kelley

Hi, Akshay.

Fran Rathke

Hi, Akshay.

Akshay Jagdale - KeyBanc Capital Markets

Hi. First question is on, longer term sort of margin target, so this quarter obviously you came in below that. I know there's some puts and takes. I put sort of growth investments bucket I would put the mix issue which is a good issue to have with brewers growing faster than K-Cups and then this brewer write down. So excluding that I think the margins were in line with your longer-term target. Is that how you would view it from a long-term perspective as when you deliver or over deliver even on your top line targets which you did this quarter, your ability to still deliver margins is really what I'm getting at. So can you just first comment on that? And I have a couple of follow ups.

Brian Kelley

Yes. Akshay, I think what you stated is accurate. We do believe that we're confident that we can get about 100 basis points improvement in gross margins and operating margin each year. We've stated that and that's what we've talked about. Even when we over deliver on the rev side, like we did this quarter, we can still do it. Now brewer mix typically dilutes our margin, our gross margin and you saw some of that, that was certainly an impact this quarter, but we're pleased with the gross margin progress we made, you saw the puts and takes. We think we're well prepared for the product transition with the charge we took and so, I think your assertion is correct.

Akshay Jagdale - KeyBanc Capital Markets

Okay. And then just two follow-ups, one on the conversion to Keurig 2.0. Am talking with your retail customers, and what is the pushback you're getting from, I mean from our research I don't think there's many people who've actually seen it that I have talked to. So, I mean the people you've shown this technology to, what is their feedback and how are you going to deal with, I mean is it a risk that there could be some consumer backlash here for restricting product that they might be buying right now, so that's the first question. The second just on CapEx; what are the big buckets of the increase in CapEx spending and can you just talk about the justification and your confidence in increasing CapEx by 44%, I think something like that year-over-year when sales growth is decelerating and your guidance is pointing to more deceleration? Thanks.

Brian Kelley

Why don't I take the conversion questions and then Fran you can outline the CapEx increases. The conversion to 2.0, and you're right we've talked to just a handful of customers with it and they're actually quite pleased. They're very

excited about it as we are. Again we've only shared it with a handful of customers. So, we don't see – at this stage we don't see any impediment in terms of consumer acceptance or customer acceptance. We also think that we're going to convert many of the unlicensed packs that consumers love and bring them into our system. And so it's obviously our goal to get as many as we can to make sure that the consumer loves the brands.

We have a very good indication of what percent of consumers who have our machines today in their households use only a licensed brand, use unlicensed brands in combination with the Keurig brew brands. It's a very, very small percentage that use only unlicensed brands obviously given the share we have of our system most consumers use the Keurig brew brands, and those that use some unlicensed they mix it in with most of the Keurig brew. So very, very small percent of consumers who use only unlicensed brands, and we're going to make this transition consumer friendly. We've got a number of ways to do just that and you'll see them as we launch it. But our customers have been very pleased with it.

Fran Rathke

And then turning to CapEx question, Akshay; the incremental $200 million or so in CapEx is pretty much all driven by the new platforms most notably our cold platform that's the line share. We also have our IT significant ERP project going on with converting to SAP. So we're global and getting everybody on the same platform. So those are that's really the main items. In the new brewer platforms they're going to be able to, will be using the same K-Cup lines that we got installed as well as the Vue lines. So on the 2.0 platform we don't really have as much a step up on CapEx in that rather just maintenance CapEx, and it's really about the new platforms enabling our growth probably that you'll see in '15 and beyond.

Akshay Jagdale - KeyBanc Capital Markets

So when will we see the CapEx number tick back down, I mean you're talking about 9% of sales, if I'm not wrong for next year. What should we look for after next year?

Brian Kelley

Well, I think Akshay it really is going to depend. We won't mind that CapEx numbers staying in the $300 million to $400 million range if the growth that we see in the new innovations is as strong as we would anticipate. And so we're going to spend and invest behind platforms and innovations that we find out our winners and we – so we don't necessarily want to not spend capital which is great investment for our business for a long-term growth. So I would say, you won't see us back in the day where we have to spend it at 14% and 15% of revenue in CapEx. And you won't always see us in investment year's be at the 5% level. You're going to see us in good investment mode behind strong innovation that's perhaps the best way to say it.

Akshay Jagdale - KeyBanc Capital Markets

Okay, I'll get back in queue. Thank you.

Fran Rathke

Thanks, Akshay.

Operator

We'll go next to Bill Chappell with SunTrust.

Bill Chappell - SunTrust

Good afternoon and thanks.

Brian Kelley

Hi, Bill.

Bill Chappell - SunTrust

Actually I'll just do a follow-up to Jon and to Akshay. I know you can't give us the names of the private label or the new partners, but can you maybe quantify the numbers that you've signed since you kind of announced this initiative last

summer. Is it 5, 10 something like that, just to kind of give us an idea what we're looking at?

Brian Kelley

We said several and that's the best way to think about it. We're not going to give a number Bill. It's just not productive because without being able to say who it is and the size, we signed several that were wanting in 2014 and it gets bigger as the year goes on.

Bill Chappell - SunTrust

Okay. And then to Akshay's question on the CapEx, can you just help us understand the spending because I am trying to figure, historically the big spending has come on adding K-Cup lines, and I think 2.0 will still use K-Cup type technology. And on the brewer side that's largely sourced through your partner in China, so I am just trying to understand where this money is being spend and what kind of capacity you need to build?

Fran Rathke

Sure, Bill its Fran. So I think in terms of the – as we just discussed, it's really driven by new platform and most notably the cold platform. So once again on the cold our appliance will be manufactured by a contract manufacturer in Asia. We typically have some CapEx where we fund the tooling, but that's pretty small compared to packaging lines. And then with the cold platform we do need to invest where we make our money in the portions in the beverage, so that's where we've got a data line if you will going in R&D line and then we'll have to scale up in a commercial way with appropriate number of lines based on what we estimate the demand stream lines is, and I think the other thing is to recall is packaging lines we need to buy them essentially year ahead to get them manufactured and then installed and qualified.

Bill Chappell - SunTrust

So just because the cold won't use K-Cups (indiscernible)?

Brian Kelley

Correct.

Fran Rathke

Correct, it's a different portion pack form, yeah.

Bill Chappell - SunTrust

Perfect, that helps. And then the last question and am sorry if you've explained this, but was the charge in the quarter basically for Vue or will there be a recall of Vue I mean if you're discontinuing that, is there something kind of for accruals baked into this year to bring that back in just well I can understand that accounting.

Fran Rathke

So the write-down is we wrote down the inventory. It is – a lot of it is Vue brewers. We don't anticipate recalling at all Vue. We see Vue, people who have bought Vue and a lot of them loved the Vue brewer. We will continue to manufacture Vue portion packs both for people who will use their Vue brewer for a number of years as well as in the new 2.0 brewer they can take Vue portion packs. So I think that transition will continue. So primarily with Vue, but it really was just part of a transition as to what we did as we estimated, we had sales plans and such. So when we looked at what brewers will be sold during the course of 2014, do we have any excess inventory of to certain brewers that wouldn't end up being estimated to be sold through and that triggered the need to take a charge given the sales plans have been solidified.

Bill Chappell - SunTrust

Got it. All right. Thanks so much for the color.

Brian Kelley

Sure.

Operator

We'll go next to Scott Van Winkle with Canaccord Genuity

Scott Van Winkle - Canaccord Genuity

Hi, thank you. Fran, earlier in a question you answered what the puts and takes were on the comparison on K-Cups year-over-year. I think you talked about 8 to 10 point headwind. Can you give us an idea of what the expectations are in the brewer side for the December quarter the Q1 that gives it a tough comparison?

Fran Rathke

Sure, and if John can add commentary. So just recall everybody, last years – our Q1 last year as we headed into the holiday season a lot of – we had a very, very strong brewer quarter. I think it was; 5 million brewers were sold in our first quarter. This year we ended up having very strong sales in our Q4, a lot of that sold through promotions but it started a little early because we moved up our sort of overall promotional calendar this year. So, I think we have a tough comp to compare in our Q1, '14 with the 5 million brewers that were sold. The other thing that happened is as we headed into last year's holiday, the prior quarter to the POS at the stores was at a stronger rate than what ended up happening last holiday, it dipped down. So what happened was a lot of our key retailers had higher levels of inventory in December heading into Q2 and we guided saying we'll actually have a decline we anticipated last year in Q2 which did happen. So I think, one, we got a tough comparison compared to last year. I think though we're seeing really good point-of-sale data in Q4 this past quarter and we anticipate a good holiday. So, I don't know, John, if you want to comment?

John Whoriskey

Sure. Hi, Scott. So we are just coming out of in Q4 for the first time promoting over the summer months with back-to-school and so we saw some nice increases in brewers. We saw some incremental shipments to support that and also as retailers got ready for this holiday season and we've been actively promoting already through October and we've got some significant investments in promoting brewers through this holiday season which will drive growth with our comp from a year ago because we had shipped in a lot of breweries that didn't get retailed through until the following quarter. That's the comps that we're struggling with but we're expecting growth in that brewer business over this holiday season with the promotional support and new advertising campaign, et cetera. So we expect to have a good holiday season that will be up over a year ago...

Fran Rathke

Like 40% and not anywhere near like we just guided for Q4.

John Whoriskey

Exactly.

Brian Kelley

Thanks, Scott.

Operator

We'll go next to Tony Brenner with Roth Capital Partners.

Anton Brenner - Roth Capital Partners

Thank you very much. I'd like to ask about two things that you haven't yet talked about. One is the BOLT away-from-home brewer. I'm wondering what the ramp here looks like and when you might be talking about that as being a growth driver? And the other is Revo which it seems like just sort of sits there without any appreciable marketing or promotional support and I'm wondering what you're having gone to quite the length over a long period of time to introduce it, what are your intentions?

Brian Kelley

Let me talk about BOLT and then John, why don't you talk about Revo. The BOLT, we put it in office use test over the last couple of months. It's been very successful. The response from our offices and from our distributors has been

excellent. You guys know what the BOLT does. It's a very, very strong offer for us. And I would say how long before it makes a big impact on sales, it's going to be a while. It's a smaller portion of the business and it takes a while for it to seed and to get through, but the response has been very, very good from distributors and we expect the BOLT to play a big part in offices and large offices and midsized offices.

John Whoriskey

And let me add to that, Tony, that we actually have seen through our initial trials in offices, the response has been very positive to the product. So we're just preparing now to launch the product fully. And I'd also speak to our office business in general and also our hospitality business, part of our strong brewer performance in the quarter was around our away-from-home business which continues to grow and expand and we are building out our food service organization as we speak and BOLT will be a part of us successfully participating in that new marketplace for us. Now as far as Revo, I think if you see – if you go to our website, you'll see that that's about a 4.5 star rating that consumer response to that product has been positive and we have expanded our distribution for the holiday season. You'll see it in many more retailers and further plans to expand probably coming out of the holiday as well into other channels. So we're pleased with the performance of that product and there's more to come on that as well.

Anton Brenner - Roth Capital Partners

More to come in terms of...?

John Whoriskey

Additional sales I think as we expand, we'll be continuing to expand distribution we think on that product coming out of the holidays.

Brian Kelley

It's important to recognize again, espresso is 3% or so of brewers sold here in the U.S., so it's a fairly small market relative to the Keurig system in total. And so when we say it's going to grow, it's going to grow but its impact on Keurig is not large but we love the product, consumers love the product and we're going to expand its distribution. But the size of – that brewer section, that component of that category is small.

Anton Brenner - Roth Capital Partners

Sure. Okay. Thank you.

Operator

We'll go next to Matthew DiFrisco with Buckingham Research.

Matthew DiFrisco - Buckingham Research Group

Thank you. Fran, my question is with respect to sort of the channels. Can you help us understand I guess as I calculated, I guess the 53rd operating week if you drop it out of the quarter on a normalized basis, is it correct to assume that the volume was around 17% on the K-Cups in this last quarter?

Fran Rathke

So the 90 million, it was last year. We had a very strong last week of the fiscal year last year. So I think of the 90 million, around 70 million of it was portion packs. And so I guess what I'm trying to get to your 17%.

Matthew DiFrisco - Buckingham Research Group

Yes, it's more than one week though. It looks like it's a 12%...

Fran Rathke

Yes. It was a very, very strong week that one week, so 17 is a good number.

Matthew DiFrisco - Buckingham Research Group

Okay. I'm trying to understand the guidance of high single digit and presumably a little slower in the first half, a little picking up in the second half. How does that break down between what you're expecting for packs versus brewers? I mean I would suspect the brewer sales you pointed out a couple of times here had a big lap, it comes up against a big lap in the first half. You also just came off a big quarter of selling in. So do you expect both of these categories to be high single digits or is it primary brewer sales again starting off the year sluggish on a year-over-year growth basis but cups maybe being in the double digits still?

Fran Rathke

We don't give our specific guidance on brewers and portion packs, but I guess directionally our brewers overall – the lion share is the at home. We are doing great in away-from-home as we noted – John noted we've seen a pickup there. But just relative to the at home side, what we've seen year-in and year-out our shipments or our sales over the course of a 12-month period are very, very aligned with the POS. So POS right now has been for the year, fiscal year 2013, POS was up about 10% or so. So I think directionally the 2.0 will start shipping we think late, late in the year. So I think that's a good indication we believe. That's a good place to plan on. Now brewers tend to be harder to predict in the short term because our customers' order have very different ordering patterns, but I would say that's a good direction. I think on the portion pack side, we expect a higher growth rate than that. I think it's all about really anniversarying the growth over this past year quarter-by-quarter of the unlicensed coming in. And as anniversary like Q3, Q4 where the unlicensed had come up already quite a bit, it's an easier comp or it's a hard comp for Q1 and Q2.

Matthew DiFrisco - Buckingham Research Group

I guess I'm just wondering, so it sounds clear that the packaged is going to be presumably faster than brewers from what you can tell from most...?

Fran Rathke

Absolutely. As the typical mile is how big is the installed base growing, okay? And our installed base is growing on – even though our brewer shipments are up 10%, our installed base is growing at a much higher clip than that. So let's say last year, 35%. Probably 25% next year, so then you say 25% demand stream increased, how much of that is going to be us versus unlicensed players. So you deduct what you think the unlicensed is which we mentioned it's up to about 12% now. That's a proxy for what our growth rate is going to be for portion packs. But as we said, we believe the unlicensed could grow even more in Q1 and into maybe Q2. And then we think it's going to start waning a bit due to the actions we've talked about.

Matthew DiFrisco - Buckingham Research Group

Exactly. So you could have a trough of say in the first half 12% to 13% growth in cups off of your math of taking 10% of a headwind away from the 25% installed base. And as you acquire in the unlicensed partners, you could be back to a high teens grower entering into FY '15 off of packages?

Fran Rathke

I think directionally that's appropriate. Yes.

Matthew DiFrisco - Buckingham Research Group

Then I guess to tie that into your margins, your cups you make money off of; your brewers, you do a zero gross profit margin off of. Why wouldn't – with this change of outlook also have a corresponding better benefit or are you just being conservative on the 100 basis point improvement? I would suspect you got some easy laps that you're going to have that you just incurred on the...?

Fran Rathke

I think we have – agree we have tailwinds helping us out on coffee getting into '14 definitely. We have productivity improvements. We're all over. I think what we factored into our guidance is the continued competitive pricing environment that we're going to as we said we are being very responsive in the market place and we've factored that in.

Matthew DiFrisco - Buckingham Research Group

Excellent. Can I just ask one last question to Brian; I just want to understand as far as the CapEx commentary you said

before, you're pretty clear and proud of the improvements you made on CapEx at the analyst day and called out sort of 8% as a percent of sales that maybe a high watermark and this new guidance looks to be 9%, maybe 8.5% to 9-ish of sales depending what our estimates are for this year. Is this the high watermark and we're still sort of thinking of 7% to 8% as a sustainable rate of CapEx if we're going to try and model longer term free cash flow.

Brian Kelley

Yes, think about this as when you want a new business and you invest you've got to build the capital base of that business and the asset base in our case is lines to make portion packs. If we're going to spend line dollars to make portion pack lines it's because we're going to grow the business, and we're going to spend it and we're going to invest in it behind growth. So I don't – we're very comfortable with the CapEx spending that we're going to put in and that CapEx spending should go into our growth and it's about investment in the future. We're confident in our double digit in the future long-term that we can deliver that kind of growth rate.

But as you get into new products that don't use the, what is now being used more efficiently the K-Cup lines, the Vue lines, very efficient. We'll continue to make them efficient with 2.0, we've got a new business coming and in that's what we're investing in. So, I think you have to look at our K-Cup system, our hot system where we're very efficient with and we'll continue to be. And now we're investing in a new system to do just what we've done in hot. And so that's how you should think about the CapEx.

Matthew DiFrisco - Buckingham Research Group

And year one being the biggest as it was sort of when you call it 2012 investment year for K-Cups when you ...

Brian Kelley

Well, it all is going to depend on how quick the growth comes and how big the business is. Spending CapEx is a wonderful thing if it's in front of growth and if it's an investment buying growth and that's how we view this. We're not going to unlikely spend it. We're going to make sure every dime we spend we sweat thoroughly and we're pretty good at it and getting better at it and we'll make sure we continue to do that.

Matthew DiFrisco - Buckingham Research Group

Did you say you have partners already signed up for the cold business?

Brian Kelley

We've not talked with all that partners, no.

Matthew DiFrisco - Buckingham Research Group

Thank you.

Brian Kelley

Sure.

Operator

We'll go next to Mark Astrachan with Stifel.

Brian Kelley

Hi, Mark.

Mark Astrachan - Stifel Nicolaus

Hi. You claimed a current household penetration of 13 million brewers in the 10-K put out tonight. Given you sold 10 million brewers the last 12 months, and 20 million in the last two years, I guess I'm curious why you think these consumers switch to the new platform?

Brian Kelley

First of all Mark, I think unless there is a type that I'm not aware of in the 10-K it should say 16 million brewers, and it probably said 13% of that represents about 13% of households. So 16 million brewers is out there, but make sure now – so I want to just correct that and if you could just ask the question again.

Mark Astrachan - Stifel Nicolaus

Yeah, you're right, it is 13%. Okay, so your 10 million brewers that you shipped this year, you had 20 million brewers you shipped the last two years. I guess I'm just curious how you think or why you think the consumer is going to switch to this new platform you just talked about?

Brian Kelley

Well, that's a very good question and I think it's the job of innovation is to give the consumers something better than they have today and do it at a value. And so we think that what we're going to give them with Keurig 2.0 is going to give them not only what they have today but much more and going to do it at value pricing that they're used to today and we anticipate a large number of current Keurig users choosing to switch into the new system because it's a better one. And any time new technology comes out and it's a better technology and you already love the brand and you offer a better product you generally get consumers to switch and I think iPhone, I think iPod not that we're comparing ourselves to that, but I think are great products out there and that's what happens. So that's certainly what we're hoping for Mark, and we're pretty confident as we've begun to talk to customers about this.

Mark Astrachan - Stifel Nicolaus

Okay. And in the quarter operating margins on K-Cups were they higher or lower year-on-year?

Brian Kelley

I know we don't give operating margin for K-Cup, and I would – I don't know the answer to that.

Fran Rathke

We don't break out our operating margin on products.

Mark Astrachan - Stifel Nicolaus

What about on a gross margin basis?

Fran Rathke

We don't break that out. We give you basically a description of all the gives and takes on the margin.

Mark Astrachan - Stifel Nicolaus

Okay. And maybe just to quantify just on the this new system relative to the existing K-Cups, what would the differential be from a cost standpoint?

Brian Kelley

We don't anticipate a cost difference. It's the difference – well I couldn't really talk about, without telling you what is coming, but a K-Cup will be a K-Cup and a Vue cup will be a Vue cup and there will be some other options consumers can have and I think that's all we should say.

Operator

And we will go next to Phil Terpolilli with Longbow Research.

Phil Terpolilli - Longbow Research

Yes, good afternoon.

Brian Kelley

Good afternoon.

Phil Terpolilli - Longbow Research

Bigger picture question on new product innovation. So just kind of going through the rolodex e here, you have Keurig Global coming mid 2014, Keurig 2.0 shortly thereafter in and Keurig Cold subsequently. I guess, one, if you can just remind us on the expected timing of those launches? And then second, just seems like there is a lot on your plate all at once, what gives you confidence that you can successfully launch these new platforms in a relatively short period of timeframe? I guess, maybe better way to say it is what's the execution risk here or there might be delays around any of these platforms? Thanks.

Brian Kelley

See we've – you can imagine we think a lot about execution and about really strong quality in our execution and about sequencing and then having discipline in the launch cycle. So we are – if you look at Keurig 2.0, we're on track with what we are doing its a new product we talked about that, but very much of the technology we are using is technology we are very, very familiar with and so we're confident in Keurig 2.0.

The cold system is a completely new technology and it is one that you will see launch, but that launch is in a more ramped way, in a sequenced way and so we not really talk exactly about how we're going to launch that and its probably not appropriate to do it here. I'd say if you look at international brewers, it's basically taking current technology we have and applying it to markets that use filter coffee and like filter coffee like we're doing here in the U.S.

So the technical risk on the hot system either international or Keurig 2.0, we'd say is very manageable and moderate, we have to stay focused and be disciplined like we always will be. And then obviously any new invention like a cold system, we're quite confident and we're making great progress on it and we've not announced an exact date of launch, but we're moving quite well and I can assure you we're watching with a very disciplined way the sequencing of this and then the quality and the execution.

Phil Terpolilli - Longbow Research

Okay, great. Thank you.

Brian Kelley

Sure.

Operator

We will take a follow-up question from Bryan Spillane with Bank of America Merrill Lynch.

Bryan Spillane - Bank of America Merrill Lynch

Hi. Thanks for taking the follow-up.

Brian Kelley

Sure, Bryan.

Bryan Spillane - Bank of America Merrill Lynch

Just a couple of points to follow-up on. In the – in terms of the Keurig 2.0 you have partners on the appliance side, I guess Mr. Coffee, Breville, will they be producing or will that technology be available to them or will they still be producing the Keurig – the old Keurig platform?

Brian Kelley

The technology will be available to them.

Bryan Spillane - Bank of America Merrill Lynch

Okay.

Brian Kelley

And we've excellent relationships with them and the technology will be available to them.

Bryan Spillane - Bank of America Merrill Lynch

Okay. So once this transition happens then it will be 1.0 is out and 2.0 is in?

Brian Kelley

Eventually yes. I don't want to say – it will replace the line.

Bryan Spillane - Bank of America Merrill Lynch

Okay.

Brian Kelley

Our individual partners have their own decision to make.

Bryan Spillane - Bank of America Merrill Lynch

And then I guess the second question is just relative to this process of not brewing unlicensed partners, is there any – do you anticipate – what kind of push back do you anticipate? I guess, is there a chance that there would be a legal challenge, is there a chance that retailers or might balk at this? I'm just trying to understand if you kind of – have you modeled that out and to the best that you can. Can you just talk about maybe some of the sort of anticipated headwinds or speed bumps you might see along the way?

Brian Kelley

Yes, sure. First of all we have thoroughly modeled it out. The second thing I'll tell you is that you've to remember this is the current brewers that are out there, the 60 million installed base will still be there. And the consumer can use them just as they do today, they can use them for all packs. We have the ability to make new product that pleases the consumer even more and we're doing that. That's exactly what we're doing. We're going to launch a new product that will go out there and if it pleases the consumer the way we think it will, it will do very, very well. I can assure you we've looked and we continue to look at a variety of things that could happen. The thing we're most concerned with is delivering consumers who love the Keurig system and even better performance and making sure that that consumer benefit is strong. Everything we've seen to-date from consumer testing, from showing it to our retail partners, we're confident that it is a very, very strong consumer benefit and we're making sure that we offer and welcome in any of those unlicensed brands who want to come in, we would welcome them in. We want them in. We want to give the consumers all the choices as possible.

Bryan Spillane - Bank of America Merrill Lynch

Thanks, Brian.

Fran Rathke

Also, Brian, I think a key is we have good relationships with our – especially our consumers. They love the Keurig and we have very good relationships with our customers. So what we've been doing is having a lot of top meetings with our customers to go over how the new brewer is going to work, how we should transition the shelf, how to give everybody adequate time in planning. We have also had a lot of meetings with unlicensed players saying, hey, welcoming them in, how can we offer you if you come into the new system. So I think we're working on all the plans as we speak to ensure as best as possible an orderly transition.

Brian Kelley

Yes, I'd wrap that up by saying our customers and our consumers are very excited about the truly game-changing functionality we'll offer in this machine. And so with that, we'd like to thank all of you for joining us today and for your continued support of our company. Thank you very much.

Operator

Thank you. That does conclude our conference. You may now disconnect.

Green Mountain Coffee Roasters, Inc. (GMCR) F4Q 2013 Earnings Conference Call November 20, 2013 5:00 PM ET

Operator

Good afternoon and welcome to Green Mountain Coffee Roasters Incorporated Fiscal 2013 Fourth Quarter Conference Call. Today's call is being recorded. At this time, I'd like to turn the call over to the Company's Vice President of Investor Relations and Corporate Communications, Suzanne DuLong. Suzanne, please go ahead.

Suzanne DuLong - VP, Investor Relations and Corporate Communications

Thank you, Amber, and welcome, everyone. Today's press release is available on our website at gmcr.com. Our Form 10-K for the period has been filed and is also available on our website.

On today's call Brian Kelley, our President and CEO will provide some brief introductory remarks. Fran Rathke, our CFO, will discuss aspects of the quarter's financial results as well as our outlook for our current quarter and fiscal year 2014. Brian will then provide some additional commentary about the business. We'll then open the call to questions from the sell-side analysts.

With us for the Q&A session are T.J. Whalen, Chief Strategy and Sustainability Officer; and John Whoriskey, President of U.S. Sales. To ensure we've the opportunity to address everyone's questions during the time we have allotted for this call, we ask that you limit yourself to one question. We will revisit the question queue for follow-up questions if time permits.

Finally, I'll remind everyone that certain statements will be made today which are forward-looking within the meaning of securities laws. Owing to the uncertainties of forward-looking statements, our actual results may differ materially from anything projected in these forward-looking statements. We can give no assurance as to the accuracy and we assume no obligation to update them. For further information on risks and uncertainties, please read the Company's SEC filings and the paragraph in today's press release that begins with the word "certain information".

And now, I'll turn the call over to Brian Kelley.

Brian Kelley - President and CEO

Thanks, Suzanne and good afternoon everyone. Before I get started, I will remind listeners that our fourth quarter and fiscal year 2012 contained a 14th and 53rd week respectively. For comparative purposes our comments today will exclude the impact of the extra week of fiscal 2012 on our financials unless otherwise noted.

Now onto our performance. We had very strong end to an excellent year, driven by continued consumer passion for the Keurig brewing system. Our 16% revenue growth for the year and 22% growth for the quarter were driven by robust brewer sales and continued momentum in portion packs. For the year our revenue growth of 16% was above our guidance and in line with our long-term growth model. In Q4 we grew revenue by 22%, non-GAAP operating profit by

36% and non-GAAP eamings per share by 56%, an excellent quarter in all.

Portion pack unit shipments grew 29% in the fourth quarter and our customers' sell-through of portion packs was consistent with our shipments for both the fourth quarter and the full year and in line with our estimates of the growth of our U.S at home install brewer base.

As we enter the holiday season, we believe retailers brewer inventory is at seasonally appropriate levels to be able to satisfy anticipated consumer demand. We continue to make meaningful gross margin progress in the quarter as we have throughout the year. Continued operating margin improvement led to non-GAAP EPS growth of 45% for the full year and 56% growth for the quarter.

Importantly free cash flow generation was excellent, at $603 million, nearly eight times last year's $77 million. Our results for the year and the quarter illustrate the strength of our business model, the healthy fundamentals at the foundation of the Keurig system and our continued operational execution.